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SIPDIS

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SUBJECT: SOUTH AFRICA: SPEECH ON RECLAIMING THE DEVELOPMENT CONTENT OF THE DOHA DEVELOPMENT ROUND

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¶1. (U) Deputy Minister of Trade and Industry Dr. Rob Davies delivered the following speech entitled: Reclaiming the Development Content of the Doha Development Round. Davies delivered this speech to the National Consultative Conference on the WTO Ministerial in Hong Kong on 17 November, 2005. The text of this speech is provided below.

Begin Text:

Reclaiming the development content of the Doha Development Round by Dr Rob Davies Deputy Minister of Trade and Industry

17 November 2005

Recent proposals by some major industrial countries in the World Trade Organisation (WTO) are threatening the developmental content of the Doha Development Agenda (DDA). These proposals seek both to sow division among developing countries and to re-interpret the framework and trajectory of the negotiations that in a self-serving manner, narrow, limit and ultimately - undermine the developmental objectives of the DDA. It is thus timely to reclaim the developmental content of the Round.
The Ministerial Declaration that launched the Doha Round proclaimed that the needs and interests of developing countries, who make the majority of WTO members, would be placed at the centre of the negotiations. This was not an act of charity but was based on an understanding that promoting development in developing countries is an essential impetus to sustained global economic growth from which all countries can benefit. A key to sustained global growth lies in unlocking the growth potential of developing countries and we have consistently argued that, to achieve this, developing countries must pursue economic development and industrialisation in sectors where they possess comparative advantage. The strategic objective for the negotiations is thus for industrial countries to undergo structural adjustment by reducing a range of protective and support measures in inefficient sectors in their economies. Such adjustment will open up new flows of trade and investment, promote industrialisation, trade and development in developing countries and establish a virtuous cycle of global economic growth.

An early conclusion of the current round of negotiations, consistent with the mandate agreed in Doha in 2001 would deliver the best overall context for such an outcome. More open and undistorted international trade would create an environment in which developing economies may diversify their exports by destination and in higher value production and deepen their integration into the global trading system. These were the strategic considerations that underpinned South Africa?s support for the launch of negotiations in Doha in 2001. In reclaiming the development content of this round of negotiations in the WTO, we also need to reassert the essential principles of proportionality, asymmetry, less than full reciprocity and special and differential treatment in favour of developing countries. These principles underpin South Africa?s approach to development and are expressed along three main dimensions.

First, the DDA must provide enhanced access to industrial country markets for the exports of developing countries. This should cover exports in agriculture, industrial goods and services. On industrial tariff negotiations, the developmental objectives of the round require the reduction and elimination of tariff peaks and tariff escalation on products of export interest to developing countries. While the average tariff rate in industrial countries are low, the level and the frequency of tariff peaks (higher than 15%) and escalation (tariffs that increase with value added) remain a matter of concern in a number of key sectors of direct interest to developing countries. In general, the growth of

industrial exports from developing countries to industrial countries is inversely related to the degree of tariff protection in the latter. The critical issue is how fast producers in the North move out of these sectors where they have lost comparative advantage.

Developing countries are prepared to make a contribution to the industrial tariff negotiations in this round, provided that their concessions are commensurate with their levels of development in a full expression of the principle of special differential treatment. This is essential to ensure that the reform processes are carefully managed for sectors that are for employment or industrial policy reasons. Thus, negotiations on industrial tariffs must accomplish two things simultaneously: (i) ensure that the remaining high tariffs, tariff peaks and tariff escalation in developed countries are eliminated and (ii) ensure sufficient flexibility that accommodates the sensitive sectors and adjustment needs of developing countries.

Second, the removal of anti-development structural distortions in international agricultural trade is a central objective of the DDA. Through a combination of high tariffs, massive domestic support and export subsidies, industrial countries are able to retain inefficient agricultural production at the cost of promoting agricultural development in developing countries. At the same time, developing countries cannot be expected to pay for this needed reform in agriculture by acceding to overly ambitious demands by industrial countries for concessions in industrial tariffs and services that do not take into account the realities of their levels of economic and institutional development. Larger economies, responsible for most distortions need to make the larger adjustments.

Third, it must be acknowledged that not all developing countries stand to gain from the DDA in the short to medium term. Indeed, least developed countries (LDCs) and small, weak and vulnerable countries do not have the supply capacity to obtain the benefits that will arise from new export opportunities of the DDA. Moreover, many will face significant adjustment costs including from the erosion of preferences. An ?aid for trade? package should be established to address these concerns. For those economies that face adjustment costs, assistance must be provided to cushion the negative effects of the reform process. Assistance will also be required to advance efforts at diversification and competitiveness in order to take advantage of new trade opportunities in the medium term. The programme could also focus on building capacity to meet international product standards as well as any new WTO obligations that emerge from this round (trade facilitation, for example). For LDCs, a package of specific measures to foster their integration into the world trading system is required particularly that industrial countries make a commitment to grant LDCs duty free quota free market access.

Recent developments

The WTO Mini-Ministerial held in Geneva on 8-9 November was considered important to provide further impetus to negotiations in advance of the 6th Ministerial Conference in Hong Kong scheduled for 13-18 December 2005. This followed a meeting on 10 October 2005 where the United States (US) submitted its agricultural proposal. This was a significant move by the US because agriculture has always been understood as the key to unlocking progress across the DDA. The US offer generated momentum in the process but deeper analysis indicated that it did not meet the objectives of the Doha mandate for substantial reductions in domestic support. Although it was inadequate, as an opening gambit, the proposal set the stage for further engagement and negotiations. On 12 October 2005, the G20 submitted its detailed proposal indicating a range of targets for agriculture. The proposal was balanced - a genuine middle ground - that aims to eliminate export subsidies and achieve substantial, real reduction in the trade distorting domestic support provided by industrial countries to their farmers.
Tariff reduction in the agricultural sector offers over 90% of the overall benefits for developing countries that would arise from a combination of subsidies elimination, reductions in domestic support and lower tariffs. In this respect, the G20 proposed a reasonable target for agricultural tariff reduction in industrial countries (54%) and offered 36% tariff

reduction for developing countries on the basis of fundamental principles underpinning the negotiations - special and differential treatment and less than full reciprocity for developing countries. Following the proposals by the G20 and the US, the European Union (EU) came under considerable pressure to make its proposal as soon as possible. At the Zurich meeting, the European Commission (EC) made an improved offer on domestic support reduction and indicated it would submit a comprehensive response by 27 October 2005. Between the Zurich meeting and 27 October 2005, the EC came under severe pressure from some EU Members to remain within the mandate and framework set by its agreed reform of the Common Agricultural Policy (CAP) reform.

On 27 October, the EC submitted its proposal that has precipitated the current impasse in the negotiations. Whereas the US proposed to reduce tariffs by an average of 75% and the G20 proposed 54%, the EU offered only a 45% reduction along with a series of caveats that would, by all accounts, empty their offer of any meaningful content in the most important aspect of the agricultural negotiations. Furthermore, the EU made its offer conditional on a series of demands that imply enormous adjustment burdens on developing countries particularly the so-called advanced developing countries (India, Brazil, China, South Africa among others) in the areas of industrial tariffs and services.

While offering ?constrained flexibility? for developing countries, the EU proposed a 10% ceiling of industrial tariffs for both developed and developing countries. This would have the perverse effect of requiring massive tariff reduction by developing countries but minimal adjustments for industrial countries whose tariffs levels are already low (3-4% average). Though not alone on services, the EU has explicitly proposed that developing countries meet certain predetermined numerical targets and benchmarks in making commitments in the services sector. This would eliminate existing flexibilities for developing countries and would fundamentally alter the accepted negotiating format for services negotiations. Moreover, the proposal reflects a profound insensitivity to real world conditions in developing economies not least that service regulations in developing countries are evolving through ongoing assessments - in a dynamic manner - to ensure they meet a complex set public policy objectives.

The EU proposal in fact goes beyond the negotiating mandate agreed in Doha. The EU also called - implicitly - for further differentiation among developing countries (so-called advanced and vulnerable developing countries) and re-introduced the issue of Geographic Indications. Both issues polarise the WTO membership. Finally, contrary to spirit of any negotiation at this stage, the EU indicated that this was its final offer for Hong Kong. In retrospect, the EU proposal and subsequent engagement appears designed to cause impasse because of an extremely limited negotiating mandate in agriculture. Following the meeting, it appears the EU has managed to shift - or at least share ? responsibility for the impasse. The impression is being created that the impasse is a result of intransigence - in equal measure - by several WTO Members. It is this distortion of perspective on the process that needs to be corrected.

Way Forward

The prospects for the 6th Ministerial Conference in Hong Kong do not appear promising. WTO Members are keen to avoid a re-run of the Cancun debacle. At this stage there are two possibilities. First, the EU makes an improved agricultural offer and reduces its ambition in industrial tariffs and services in advance of the Hong Kong Conference. This appears unlikely. Second, expectations for Hong Kong may have to be effectively managed. In this respect, the key objectives would be four-fold: (i) to avoid a complete breakdown of negotiations and recriminations as had happened following the failure in Cancun; (ii) to capture and consolidate the considerable and important work that has been undertaken in the last year through a status report to the Conference; (iii) to deliver some tangible benefits for the poorest WTO members with some decisions in favour of least developed countries (LDCs), an agreement on the ?aid for trade? package and a final solution on the TRIPS and Public Health issue and (iv) to agree to continue and intensify work in 2006 without compromising the

Doha mandate.

Development must remain the essential measure for defining success in this round of WTO negotiations. This should be understood as providing enhanced access to the goods and services exports of developing countries and removing the structural distortions in agriculture through the elimination of export subsidies and substantial real reductions in domestic support. Developing countries will make a proportional contribution by reducing barriers to trade in a manner that is consistent with their level of institutional and economic development. For the weaker and more vulnerable economies, a package of measures under a strengthened aid for trade package should be implemented to meet transitional adjustment costs and to boost their capacity to take advantage of new trade opportunities in the medium term. The immediate obstacle to meeting these objectives is the EU failure to make a meaningful offer on market access in agriculture.

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